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Message Text

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SUBJECT: JAPANESE LOCAL COST SUPPORT

1. ALTHOUGH DURING THE NEGOTIATIONS ON THE INTERNATIONAL ARRANGEMENT ON GUIDELINES FOR OFFICIALLY SUPPORTED EXPORT CREDITS THE USG HAD PROPOSED THE ELIMINATION OF LOCAL COST FINANCING, AGREEMENT COULD BE REACHED ONLY ON THE POINT THAT SUCH FINANCING SHOULD NOT BE PROVIDED TO THE RELATIVELY RICH COUNTRIES. NEVERTHELESS, WE CONTINUE TO BELIEVE THAT LOCAL COST FINANCING SHOULD NOT BE SUPPORTED BY EXPORT

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CREDIT AGENCIES.

2. LOCAL COST FINANCING BY EXPORT CREDIT AGENCIES IS NOT EXPORT FINANCING BUT A SPECIAL INDUCEMENT TO THE BUYER BY THE EXPORTER. IN RECOGNITION OF THE EXPORT PROMOTIONAL AND COMPETITIVE ASPECTS OF LOCAL COST FINANCING, THE OECD COUNTRIES AGREED TO LIMIT LOCAL COST SUPPORT TO THE AMOUNT OF THE CASH PAYMENT IN THE EXPORT TRANSACTION.

3. THE GOJ CONTINUES TO PROVIDE OFFICIAL SUPPORT FOR LOCAL COSTS IN A NUMBER OF EXPORT CREDIT TRANSACTIONS. OUR INFORMATION INDICATES THAT IN THE RECENT PAST JAPANESE LOCAL COST FINANCING MOST OFTEN HAS BEEN PROVIDED TO ADVANCED DEVELOPING COUNTRIES SUCH AS MEXICO, VENEZUELA, AND IRAN. THUS, IT IS CLEAR THAT THIS FORM OF SUPPORT IS MORE NEARLY AN EXPORT PROMOTION MEASURE THAN A MEANS OF ASSISTING POOR DEVELOPING COUNTRIES.

4. LOCAL COST FINANCING BY THE GOJ HAS BEEN CITED BY US EXPORTERS AS AN EXAMPLE OF UNFAIR JAPANESE COMPETITION IN PROJECT FINANCING. THE US EXPORT-IMPORT BANK THEREFORE HAS ON OCCASION MATCHED INSTANCES OF LOCAL COST SUPPORT BY OTHER EXPORT CREDIT AGENCIES BUT SUCH ACTION CONSTITUTES A BURDEN ON THE FINANCIAL RESOURCES AVAILABLE TO THE BANK.
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5. THE JAPANESE GOVERNMENT HAS UNDERTAKEN TO REDUCE ITS CURRENT ACCOUNT SURPLUS AND TO COOPERATE IN CURBING EXCESSIVE COMPETITION IN EXPORT CREDITS. IN THIS CONTEXT, THE ISSUE OF CONTINUED LOCAL COST FINANCING BY THE GOJ HAS BEEN RAISED WITH THE JAPANESE EMBASSY (MINISTER MATSUMURO) BY ASSISTANT SECRETARY OF THE TREASURY BERGSTEN.

6. THE EMBASSY IS REQUESTED TO MAKE A SIMILAR REPRESENTATION TO THE GOJ WITH A VIEW TOWARD OBTAINING THE CESSATION OF LOCAL COST FINANCING BY THE GOJ, OR AT THE LEAST OFFERING LOCAL COST SUPPORT ONLY IN SELECTED INSTANCES TO MATCH VERIFIED LOCAL COST FINANCING BY ANOTHER OFFICIAL EXPORT CREDIT AGENCY. EMBASSY SHOULD SPECIFICALLY NOTE THAT THIS TYPE OF FINANCING IS NOT CONSISTENT WITH JAPANESE GOVERNMENT EFFORTS TO REDUCT ITS CURRENT ACCOUNT SURPLUS.

7. FYI: WHILE THE GOJ IS ABIDING BY THE LETTER OF THE ARRANGEMENT, WE BELIEVE THAT THE GOJ SHOULD JOIN US IN TAKING THE LEAD IN CHECKING THIS TYPE OF EXPORT CREDIT COMPETITION. IN ADDITION THE GOJ DID AGREE IN THE STRASS-USHILA COMMUNIQUE TO MAKE FURTHER REASONABLE EFFORTS TO REDUCE ITS CURRENT ACCOUNT SURPLUS. COOPERATION IN RESTRICTING LOCAL COST SUPPORT, WE BELIEVE, WOULD FACILI-

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TATE SUCH A REDUCTION. WE ARE POUCHING TO THE EMBASSY A
LIST OF RECENT CASES IN WHICH JAPAN OFFERED LOCAL COST
SUPPORT. END FYI. VANCE

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